



# NC 2011 Regular Legislative Session Budget and Fiscal Policy Highlights

## Fiscal Brief

July 14, 2011

### Executive Summary

When the 2011 General Assembly convened in January, they were confronted with the loss of \$1.6 billion in federal American Recovery and Reinvestment Act (ARRA) funds, \$1.3 billion in expiring temporary taxes and another \$800 million in estimated funding needs - a budget gap preliminarily estimated at \$3.7 billion. By March, improvements in the State's slowly-recovering economy, lower than expected funding needs for enrollment growth in public education and Medicaid, and further refinement of the estimate for the State Health Plan brought the gap to \$2.6 billion.<sup>1</sup>

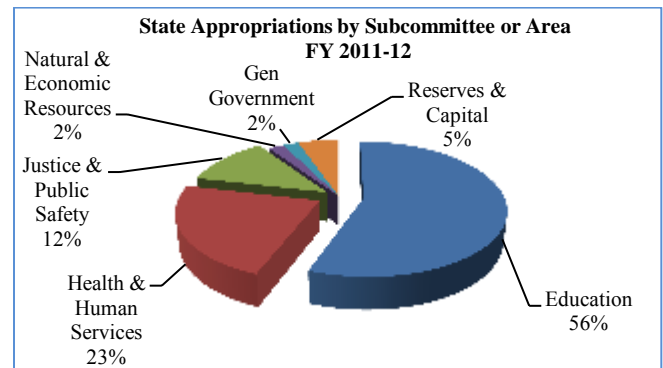
The legislature took steps early on to address the gap, enacting Senate Bill 109 (Session Law 2011-15), directing Governor Beverly Perdue to increase reversions from the current operating budget by \$538 million. That action, along with \$2 billion in reductions primarily in education and Medicaid, helped close the gap. On June 4th, 2011, House Bill 200 was ratified, appropriating \$19.7 billion in General Fund spending for FY 2011-12. Governor Beverly Perdue vetoed the bill on June 12th but the General Assembly overrode the veto and House Bill 200 (S.L. 2011-145, Appropriations Act of 2011) became law on June 15, 2011.

This brief summarizes the General Assembly's major budgetary actions to close the \$2.6 billion gap, reorganize and consolidate government, and to reform the State's justice system.

### FY 2011-12 Budget

The General Assembly enacted a \$19.7 billion budget for FY 2011-12, closing a \$2.6 billion budget gap using a combination of adjustments to General Fund availability (36%) and spending reductions (64%).

As Figure 1 shows education and health and human services received the majority of State appropriations.



### General Fund Availability

#### Baseline Revenue

The consensus forecast maintained a cautious approach to the State's revenue outlook, not allowing modest improvements over the last year to influence overall expectations.

In February economists in the Fiscal Research Division and the Office of State Budget and Management issued the annual consensus forecast. Baseline revenue would grow 4.6 percent to \$18.8 billion for FY 2011-12, enough to offset nearly \$1 billion of the \$1.3 billion in expiring temporary sales and income taxes.

The \$18.8 billion represents a decline of \$336.1 million from the previous year's collections. That decline, along with the uncertainty surrounding the pace of growth in the economy, including weaknesses and instability in the housing and employment markets, furthered strengthened the State's position that a full economic expansion during the next biennium was improbable.

General Fund revenues are forecast to grow 5.6 percent in FY 2012-13.

<sup>1</sup> For a history of the budget gap, click on [Fiscal Year 2011-12 Budget Gap](#)